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The Political Economy of Free Trade, WTO and the Developing Countries

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Abstract. This paper examines the existing literature on trade liberalisation and itseffect on the economies of developing countries. It will also briefly examine the theory of comparative advantage which is seen as justification for global trade liberalisation under the auspices of the World Trade Organisation. This process is also associated with greater openness, economic interdependence and deepening economic integration with the world economy. The study is important because once again the international institutions strongly advocate trade and financial liberalisation in developing countries. The proponents of trade liberalisation argue that multilateral trade negotiations would achieve these goals, and poor countries particularly would benefit from it. However, such policies may increase vulnerability and make developing countries further hostages of international finance capital. Adoption of open market policies in agriculture would also mean the abandoning of self-reliance and food sovereignty, which may have wider consequences in terms of food shortages, food prices and rural employment.
Keywords. Trade liberalisation, Industrialisation, WTO, International financial institutions, Developing countries.
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1. Introduction

The World Trade Organisation (WTO) is widely seen as promoting prosperity through trade, especially favouring developing countries. This is presented so as to achieve 'fair trade' and economic growth in developing countries (WTO, 2013).A new round of global trade negotiations, the Doha Round, has taken place under the WTO. It is said that increased trade and interdependent goods and services and money markets underscore the importance of international cooperation to contain crises and promote growth. The proponents of trade liberalisation argue that multilateral trade negotiations would achieve these goals, and poor countries particularly would benefit from it; while critiques say that trade rules under the WTO and international financial institutions will acquire more power, which could restrict the ability of developing countries to pursue an independent economic policy.

Globalisation is described as a process of integration into the world economy. It consists of three key areas, namely trade, investment and finance. This process is also associated with greater openness, economic interdependence and deepening economic integration with the world economy. The aim of this paper is to study the issue of 'free trade' in the light of past experiences and whether we can draw some lesson from it.

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This paper aims to examine free trade in a historical perspective in order to understand its implications and future prospects for development. The focus of the study also briefly discusses previous attempts by military force to open up economies in the name of 'free trade' in the colonies by the European powers during the late 19th century. Britain adopted 'free trade' policies in the 19th century when it had relatively more advanced technologies and industries compared to other European countries. Such policies were extended to the colonies to further its business and trade interests. Since mid-19th century Africa and Latin American countries were integrated into the world economy as the supplier of primary commodity, as envisaged by the 'comparative advantage' model. However, after the Second World War these countries opted in favour of industrialisation, with different degrees of political commitment and state involvement via 'import substitution industrialisation' policies. Despite a number of constraints, their growth rate performance was in fact better than it had been during the period of market liberalisation. However, such policies came to a dead end due to debt crisis and in the changing international environment (Ghose, 2004; Siddiqui, 2012).

Under such circumstances (i.e. both domestic and international), there was strong pressure on developing countries to accept trade and financial liberalisation by the IMF, World Bank. But the difficulties of the Doha Round negotiations under the WTO were due, it seems, not only to lack of reaching a consensus on agriculture, but also to loss of national policy manoeuvres felt by the developing countries. The governments displayed an inability to deploy effective policies in situations where their assistance might be needed to spur economic development or fight high levels of underemployment. Their domestic policy space and flexibility was being constrained by the proposals under the WTO negotiations based on comparative advantage, which has major weaknesses on both theoretical and empirical grounds. On theoretical grounds, its weakness stems from not addressing externalities such as market failures, environmental costs and investment in education. As Gallagher (2008: 63) argues, "When markets stray from ideal conditions, market 'failures' emerge that distort the real functioning of the economy against the ideal result, creating or sustaining inequalities, environmental stress, and technological stagnation or regress… when the market fails, policy instruments should be deployed to correct the distortions created by private markets".

On empirical grounds we have examples of successful economic development in East Asian economies such as Malaysia, South Korea, Singapore and Taiwan, and more recently in China (Siddiqui, 2016; Gallagher, 2008). The success of their higher growth rates shows a clear role for governments in smoothing out the difficulties. These countries have successfully taken independent policy measures to spur economic development, which has proved very critical in the early years of their path to industrialisation. A number of studies have pointed out that the governments in East Asian countries have invested in major outlays on infrastructure, education and skills development, import licensing, quotas, exchange rate controls and wage restraints (Siddiqui, 2012; Rodrik, 2004). Enactment of all such policies by the states has resulted in the successful development of the manufacturing sector, with government subsidised credits from state banks being extended to manufacturing in exchange for concrete results.

It can be argued that all subsidies would encourage 'rent seeking' behaviour that would make it difficult for the developing countries to pick winners (Krueger, 1996). Government bureaucracy needs to maintain neutrality and should be above from sectional interests of seeking rents. As Amsden finds, public institutions in countries such South Korea, Taiwan and Singapore disciplined the economic behaviour of companies based on their information and performance assessment.

"Reciprocity disciplined subsidy recipients and thereby minimized government failures. Subsidies were allocated to make manufacturing profitable – to convert moneylenders into financiers and importers into industrialists – but did not become giveaways. Recipients of subsidies were subjected to monitor able performance standards that were redistributive in nature and result oriented. The reciprocal control mechanism thus transformed the inefficiency and venality associated with government intervention into collective goods" (Amsden, 2005:222).

Various studies have shown that state intervention in the national economy has proved to be a crucial policy element in achieving successful economic development (Amsden, 2005; Gallagher, 2005). There seems to be a need for state management to make the market friendlier towards national economic developmental needs. Many developmental policies that are now criticised by developed countries are the very same policies that were once essential in the early years of their industrialisation process. As Rodrik emphasises:"Almost all successful cases of development in the last fifty years have been based on creative and often heterodox policy innovations… At the time, GATT rules were sparse and permissive, so nations combined their trade policy with unorthodox policies: high levels of tariff and non-tariff barriers, public ownership of large segments of banking and industry and export subsidies, domestic content requirements, import-export linkages, patent and copyright infringements, directed credit and restrictions on capital flows… In all of these countries, trade liberalisation was a gradual process, drawn out over a period of decades rather than years" (Rodrik, 2004, cited in Gallagher, 2005:8).

2. History of Free Trade

The period from 1870 to 1914 was the period known as the age of laissez-faire and government intervention was minimal. This period saw a rapid increase in trade and it was estimated that during this period growth in world trade was 3.9% annually, which was much faster than growth in world output at an average 2.5% per annum (Nayyar, 2006). The share of world trade in world output rose steadily during this period. On average the developed countries share of exports in GDP rose from 18.2% in 1900 to 21.2% in 1913 (World Bank, 2014; Maddison, 2006).

Trade barriers began to come down in Europe with the Anglo-French treaty on trade, seen as a first step towards this direction. However, lowering the barriers to trade was then confined to Europe, while the US practised protection during the period 1870 to 1914, where average tariff levels were around 40-50% on manufactured goods (Chang, 2002).

In Europe, Britain and the Netherlands continued to practice free trade. Moreover, once European countries colonised the rest of the world, especially Asia and Africa, they imposed free trade on their colonies. In 1842 China was forced by Britain to sign a treaty that led to the opening of the Chinese market to European products, with an import tariff as low as just 5%; and also in the 1840s free trade was imposed on India by Britain. The Netherlands removed tariff barriers on Indonesia. In 1858, Japan was also forced to accept free trade under US navy threats. The Commodore Perry and Shimoda-Harris treaty was signed with the aim of opening up Japanese markets for US products (Chang, 2002).

Morocco in 1856 was forced to accept a maximum import duty of 10% by Britain. The Anglo-Turkish commercial convention of 1838 led to the imposition of very low tariffs of only 3% on Ottoman territories. As a result, British merchants were granted free access to trade in all parts of the Ottoman Empire without paying any internal duties (Maddison, 2006).Torrens argues in 1820 that "England's growth rate could be augmented through the further unleashing of productive forces in manufactures and the by passing of the natural impediments in the primary producing sector, her trading partners would be trailing behind in terms of their rate of accumulation. Upon perceiving this development … more aggressively opening markets for English products as well as tapping new or expanded sources of supply to satisfy her needs for raw products" (cited in Ho, 1996:28).

Portugal took the lead in opening trade with Asia by the end of the 17th century. Its trading activities were established by a strong navy and with the help of armed ships to control shipping routes and also to intimidate the local producers in coastal areas. Portuguese traders set up bases around deep harbours in Mozambique, Hormuz in the Persian Gulf, Goa in India, Jaffna in Ceylon, Macau, and Timor in Indonesia. In the beginning, the Portuguese trade in Asia consisted of pepper and spices and their merchants paid in bullions for their purchases as Asian countries had no interest in European products (Gallagher & Robinson, 1953). The Portuguese soon began to charge fees on Asian ships using their harbours. Such claims remained unchallenged as the Chinese and Japanese slowly withdrew from their participation in international trade. The Portuguese occupied the western coastal part of India, where they hardly faced any challenge; then the Mughal Empire in Delhi and Vijayenagar rulers in South India, where they merely derived their income from land taxes and had no significant financial interest in foreign trade.

However, by the 1650s the Dutch defeated the Portuguese and captured most of their ports in Asia, leading to the Dutch company (VOC) accounting for 45% of the European voyagers in Asia from 1640 to 1800 and being given a monopoly charter. Their ships were armed and the Company had the power to wage war, and establish treaties with Asian rulers. Over the period between 1640 and 1800, the VOC sent nearly one million sailors, soldiers and admin staff to its 30 Asian trading ports (Habib, 1995);certainly, buying cheap to sell dear by the monopoly chartered companies engaging in long distance trade, where these companies made huge monopoly profits (Bagchi, 2010). The British took over Bengal in 1757, which greatly weakened the Portuguese position in Asia. Until the first quarter of the 19th century, the impact of European colonisation in Asia was modest. In Asia the level of technology was much more sophisticated and the major Asian countries such as the Ottoman territories, Safavid in Iran, the Mughal in India, and China and Japan were far better equipped to resist occupation than the Aztecs and Incas and North American indigenous tribes (Bagchi, 2010).

However, in China the British military attack and political hold failed to break down Chinese economic self-sufficiency. The opium wars of the 1840s and again in the 1850s and the burning of the summer palace in 1860 widened British trade, but they did not succeed in making the Chinese dependent on British products. Despite forcible opening of the Chinese markets by the British and French and bringing the country into semi-colonial relations in the mid-19th century, lasting until the mid-20th century, the European attempt to break the country's self-sufficiency and sell European products into Chinese markets largely failed. China remained self-sufficient and did not become a large market for European products in the 19th century.

British officials in Egypt had relied on Gladstonian policies that assumed that the free market is critical to expand its interests. To achieve this balanced budget, government spending and taxation should be kept low. Egypt was initially occupied by Napoleon, but its market was fully opened by Britain; thus Egypt was forced to accept a 'free trade' treaty in the 1841 Khedive's attempt to modernise its economy, through borrowing and also by encouraging European immigration and businesses to invest in Egypt (Owen, 2004). The Egyptian government invested heavily especially in the sugar and cotton industries; these finished products were mainly aimed for foreign markets. As a result, the production of sugar and cotton increased rapidly in the 1850s and 1860s. However, due to a slump in export demands and mismanagement in the 1870s, these industries witnessed a deep crisis and exports fell sharply. With the dwindling export markets, Egypt began to increasingly rely on foreign borrowing, especially from Europe. Egypt's foreign debts increased along with corruption and nepotism. Between 1862 and 1880, Egypt's long-term debt rose from UK£ 3 million to UK£ 68 million (Owen, 2004).

As Gallagher & Robinson (1953) found: "Foreign loans and predatory bankers by the 1870'shad wrecked Egyptian finances and were tearing holes in the Egyptian political fabric. The Anglo-French dual financial control to safeguard the foreign bondholders and to restore Egypt as a good risk provoked anti-European feeling. With the revolt of Arabi Pasha in 1881, the Khedive's government could serve no longer to secure either the all-important Canal or the foreign investors' pound of flesh" (Gallagher & Robinson, 1953: 13-14).

The British then focused on negotiating a financial settlement to the law of liquidation of the 1880s that would ensure debt repayment through rigorous budgetary control and also guarantee discipline of long-term financial control and stability. In 1882 Brailsford notes (1998:101): "Egypt was already a nation emerging from the lethargy and oppression of centuries when it was invaded by Britain at the behest of the owners of its usurious debt." Prior to the occupation in 1882, Lord Cromer was already working as a British Agent-General and the effective ruler of Egypt. Lord Cromer kept expenditure on education miserably low, which soon became the main reason for the stranglehold on any attempt to modernise the economy (Brailsford 1998; Chang, 2008).

Britain's trade with India until the mid-18th century consisted mainly of imports of textiles, silk and spices. India remained the largest exporter of cotton textiles in the world until the end of the 18th century. Since Britain had nothing to offer India, Britain had to pay in gold and silver for its imports. The huge amount of gold and silver looted from Latin America was used as payment for its imports (Bagchi, 2010; Siddiqui, 1990).

With victory in the battle at Plassey in 1757 Britain began to occupy more territories and with this it raised land revenue in India to meet its war expenses and also to pay for her imports from India. Britain's total imports from India were paid for by Indian revenue and thus constituted a "drain", or the "tribute" paid by India to Britain as a cost of being colonised. This tribute was very critical to Britain's economic developmental process. Irfan Habib (1995) calculated that in 1801, during the period of Britain's industrial development, the "tribute" to Britain from India represented about 9% of the entire GNP of the British occupied territories in India which was equal to nearly 30% of the British domestic savings available for capital formation in Britain.

India's trade consisted of two parts, its trade with Britain and its trade with the rest of the world. India had an export surplus on its merchandise account with the rest of the world, but always had a trade deficit with Britain mainly because of British manufacturing charging higher prices. They also found vast markets in India by compulsorily opening up India's markets (Siddiqui, 1990). However, India's surplus with the rest of the world far exceeded the trade deficit with Britain, leaving an overall merchandise export surplus for India, which rose over time. To appropriate India's global foreign exchange earnings and surplus, all Britain did was to administratively impose tribute charges to be paid in pounds sterling; such practice was not seen for any sovereign nation (Bagchi, 2010).

Once the industries in Britain began to expand and industrialisation took firmerroots, its interest in the colonies changed. Rather than simply buying and selling, investment in mining and production of raw materials for British industries became more crucial tasks and later on demanded greater access to markets in the colonies. As a result, in India for example, the absolute decline of the manufacturing sector took place, which is known as de-industrialisation. The reallocation of labour and the urban population from manufacturing activities to primary production led to overcrowding of the agriculture sector (Habib, 1995; Siddiqui, 1990). For example, India was prevented from developing their long-term comparative advantage in manufacturing, as local manufactures and handicrafts had no social or political influence or connections with the colonial governments, meaning their interests were ignored against the pressures and interests of the foreign manufacturers. The colonial government during the Great Depression of the 1930s in India consistently pursued deflationary policies despite falling output and exports. In the colonies there was no political or organised opposition against policies to transform the colonies into specialises in supplying raw materials in the name of David Ricardo's theory of comparative advantage (Siddiqui, 2015a); while at the same time the developed countries, in order to continue their control over the colonies, necessitated the monopolisation of high technologies and offensive military technologies, thus also creating disunity among the colonies (Brown, 1993).

Even at the end of the 18th century India's share of the world's manufacturing output was as high as 19.7%, but had fallen to 8.6% by 1860. As Gallagher & Robinson (1953) note, "In India it was possible, throughout most of the period of the British Raj, to use the governing power to extort in the form of taxes and monopolies such valuable primary products as opium and salt. Furthermore, the characteristics of so-called imperialist expansion at the end of 19th century developed in India long before the date 1880… Direct governmental promotion of products required by British industry, government manipulation of tariffs to help British exports, railway construction at high and guaranteed rates of interest to open the continental interior – all these techniques of direct political control were employed in ways which seem alien to the so-called age of *laissez faire*" (Gallagher & Robinson, 1953:4).Despite the adoption of free trade policy during the colonial period, the growth rate of per capita income in India was almost stagnant between 1820 and 1913, while independent countries such as Europe, the US and Japan witnessed a rapid increase in growth rates and successfully built their industrial sector.

Table 1. *Share of the World's GDP (%of world total)*

Year	1500	1700	1820	1870	1913	1950	1973	2001
Britain	1.1	2.9	5.2	9.0	8.2	6.5	4.2	3.2
Western Europe	17.8	21.9	23.0	33.0	33.0	26.2	25.6	20.3
US	0.3	0.1	1.8	8.8	18.9	27.3	22.1	21.4
China	24.9	22.3	32.9	17.1	8.8	4.5	4.6	12.3
India	24.4	24.4	16.0	12.1	7.5	4.2	3.1	5.4
Asia (excluding Japan)	61.9	57.7	56.4	36.1	22.3	15.4	16.4	30.9

Source: Angus Maddison (2006) *The World Economy*, Vol.1, Paris: OECD, Table 8b

Angus Maddison (2006) estimated the world's gross domestic product between 1500 and 2001. As Table 1 indicates, after colonisation, the West Europe share began to rise, while Asia's share began to fall. The process rose sharply as large parts of Asia were colonised and by 1913 the Asian global GDP share was merely two-thirds that of West Europe. Together China and India produced nearly half of the world's total GDP share in the 18th century. At the beginning of the 19th century India was the largest economy in the world with nearly one quarter of the world's output, which was then greater than that of the entire Western Europe region and more than eight times that of Britain. However, at the end of the two centuries of colonial rule, India's share had fallen to a mere 4.2% and even less than two-thirds of Britain's GDP in the 1950s (Maddison, 2006).

3. Free Trade, Openness and Industrialisation

In the mid-19th century, the UK became the promoter of free trade policies, which were then not suitable for Germany or the US. Friedrich List demonstrated this by likening Britain's promotion of free trade to 'kicking away the ladder' by which it had risen to deprive others of the means of climbing up (Chang, 2008). As Friedrich List commented: "It is a very clever common device that when anyone has attained the summit of greatness, he kicks away the ladder by which he has climbed up, in order to deprive others of the means of climbing up after him … Any nation which by means of protective duties and restrictions on navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than to throw away this ladder of her greatness, to preach other nations the benefits of free trade …" (List, 1966: 368)

On the question of laying the foundations of industry in a country that is behind and needs to catch up in the industrialisation process, the country must take steps in clear policy measures to protect and build industries. As List suggests, to cat chup with a country such as Germany, first it has to lay grounds for industrial development. "In order to allow freedom of trade to operate naturally, the less advanced nation must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated" (List, 1966: 131).

The industrial revolution in Britain had shown other countries the path to industrialisation and how to learn from its experience and move forward. But copying and industrialisation could lead to increased competition to procure inputs and markets for their finished products. However, the first countries to follow Britain were independent nations who had full control over their resources and economic policies. For example, in the United States, British businesses turned cotton production to their advantage and wanted to repeat this in the mid-west region of the US as well. But the political leadership of the US then stood firmly against it, which resulted in the industrial lobby successfully campaigning to raise tariffs, despite the strong opposition from those sections that relied on and profited from the British connections (Chang, 2008).

The interests of manufacturing capital in the developed countries prioritised securing access to markets and lower prices for their imported raw materials, while their businesses had an interest in keeping higher prices for their manufactured goods. Often in their colonies European businesses had a better chance of earning monopoly profits. Pursuing the trade objectives dominated by their manufacturing and financial interests required the creating of conditions whereby the economies of the colonial countries were transformed to complement the industrial interests of the European countries; while at the same time manufacturing or any sort of potential competition must disappear to make way for the greater demands of the manufactured goods from the colonial powers.

Figure 1 shows that the US economy was far less open prior to the two World Wars and the Great Depression and we find that in the post-war period its economy has opened remarkably. Following the Second World War, the US and other developed countries negotiated under the Uruguay Round to reduce trade barriers which contributed to rising world trade (Wade, 2003; World Bank, 2014).

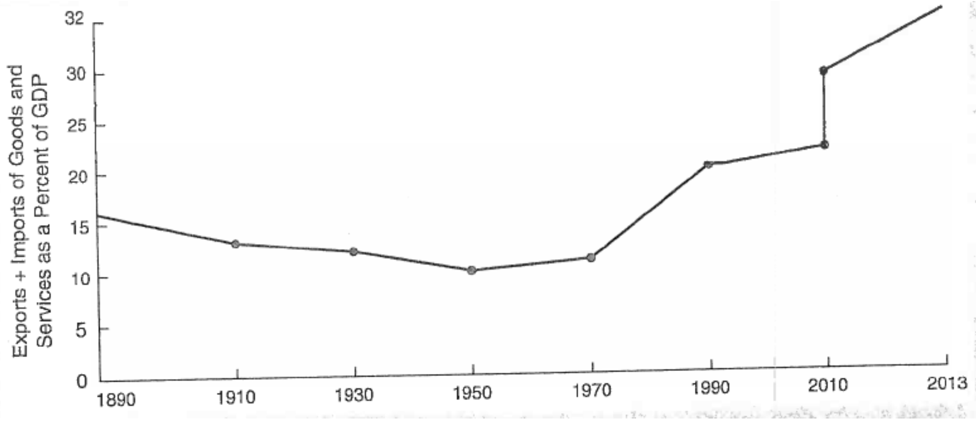

Figure 1. *Openness of the US Economy from the period of 1890 to 2013.*
Source. US Census Bureau, US Trade in Goods and Services, at http://www.census.gov/foreign-trade/

Recent multilateral trade deals have, besides liberalising trade in goods and services, at the same time strengthened monopolies in the pre-production phase through control over knowledge in the form of intellectual property rights such as patents and industrial design and in the post-production phase, as well by increased enforcement of branding and marketing. As a result, the value added of such trade seems to be concentrated in the developed countries while the developing countries compete over the spoils of the low-value segments.

The WTO was established in 1995, taking over from GATT (General Agreement of Trade and Tariffs). Trade liberalisation negotiations have taken place since 1947 in a series of lengthy 'Rounds' negotiations. These rounds of talks were meant to enable countries to reach agreement over access to each other's markets and also trade relationships between developed and developing countries. They also accepted that 'special differential treatment' would apply in which developing countries were supposed to have preferential access to markets in the developed countries, as well as some sort of providing time to build industries in their own countries. However, with the establishment of the WTO, earlier proposed policies were altered and special and differential treatment was redefined with merely allowing developing countries longer adjustment periods in which to implement neoliberal policies and make the adjustment period shorter (Sen, 2005; Curtis, 2006).

The WTO is being presented as the only "development" model available for developing countries. It is also aimed at the enlargement of the markets for global monopolies in the areas of manufacturing, agriculture and services through the Uruguay Rounds of negotiations where it is being referred to as expansion of trade for the development and well-being of everyone, i.e. a win–win game for all participants. "Building supply-side capacity" is the key towards higher exports and ultimately higher incomes and employment for the developing countries. However, such policies ignore the economic and political space for self-determination and development based on local realities and needs. Here it appears that the focus is largely on GDP growth based on Western models (Siddiqui, 2015c).

In the WTO meeting in Hong Kong, and later on in Bali, the developing countries were offered a so-called developmental package that would enable them to build supply side capacity including infrastructure to promote trade related activities. The emphasis was also on promoting the cultivation of cash crops in developing countries for export. Of the three major areas of agreement under the WTO negotiations – TRIPS on property rights, TRIMS on investment measures, and GATS on services –TRIPS covers protection of trademarks, patents, copyrights, industrial design etc. At present, as far as the question of knowledge and technology, the developed countries are net producers and the developing countries are net consumers. TRIPS will increase the price of patentable knowledge to consumers and as a consequence, the flow of rents from the developing countries to developed countries will increase. These changes in policy measures will limit the authority of the developing countries to have any say in the choices of companies operating in their countries. It appears that with the current agenda of universal trade liberalisation, not only will development space shrink but self-determination and economic sovereignty will also be undermined (Siddiqui, 2012).

For example, more than half of the world's service exports are accounted for by West European countries, while on the other hand, for the largest exporter of services, i.e. China, services accounts for less than 3% of its total trade. As Table 2 shows, services, including patent fillings are very important for developed countries.

Table 2. *Patent Fillings by Selected Countries in 2013*

Country	Number of Patent Fillings
US	51,625
Japan	43,660
Germany	18,617
France	7,851
Switzerland	4,190
Netherlands	4,071
South Korea	11,848
China	18,617

Source: World Intellectual Property Organisation, The International Patent System: Monthly Statistics Report, 2013 at www.wipo.int/ipstas/en.

GATS (The General Agreement on Trade in Services), TRIPS and TRIMS are committed to promoting neoliberal policies. GATS is also designed to further open up markets for services with penalty clauses and sections against governments found breaching GATS regulations. For GATS, the central point of the agreement is to achieve market liberalisation in services. However, trade liberalisation also includes finance, insurance, transport, education and health. It is also said that de-regulation in financial markets and implementation would most likely increase speculation-led activities dominated by the financial sector and short-term rather than long-term investment. Foreign direct investment (FDI) from developed countries iscurrently more than five times that originating from developing countries. FDI inflows into developing countries encourage Mergers and Acquisitions (M&A) which will further add to the concentration of economic and market powers and towards building of monopolies and oligopolies rather than competitive markets, as envisaged by the neo-classical theorists (Siddiqui, 2015c).

Earlier, the treaties under the GATT negotiations recognised Special and Differential Treatment for developing countries. However, later on in 1994 the Uruguay Round treaty changed this to a single-tier system of rights and obligations, meaning that developing countries have to implement in full all the rules, seen as quid pro quo, for market access in the textile and agriculture sectors, which are highly protected in developed countries. Any autonomous developments will eventually require wider policy choice, which is being limited to developing countries (Stiglitz, 2005). TRIMS does not permit practices such as local product linkages between foreign and local investors or foreign exchange earning requirements. TRIPS will further encourage privatisation and monopoly ownership of knowledge and will severely limit and reverse the initiatives achieved by the public sector in manufacturing and medicine in developing countries.

As a consequence of the implementation of WTO backed trade and services, liberalisation would certainly mean that the developmental option and economic diversification would be shrinking for most developing countries. Even the policies of the recent past to upgrade technologies and structural changes with state active assistance will no longer be available to most developing countries. The options of sovereign decision making and promoting a policy suitable to their specific conditions will be seen as a hostile move by the WTO and international financial institutions. Their key priority is 'opening-up markets' and for that they have key international agreements – TRIPS, TRIMS and GATS (Wade, 2003).

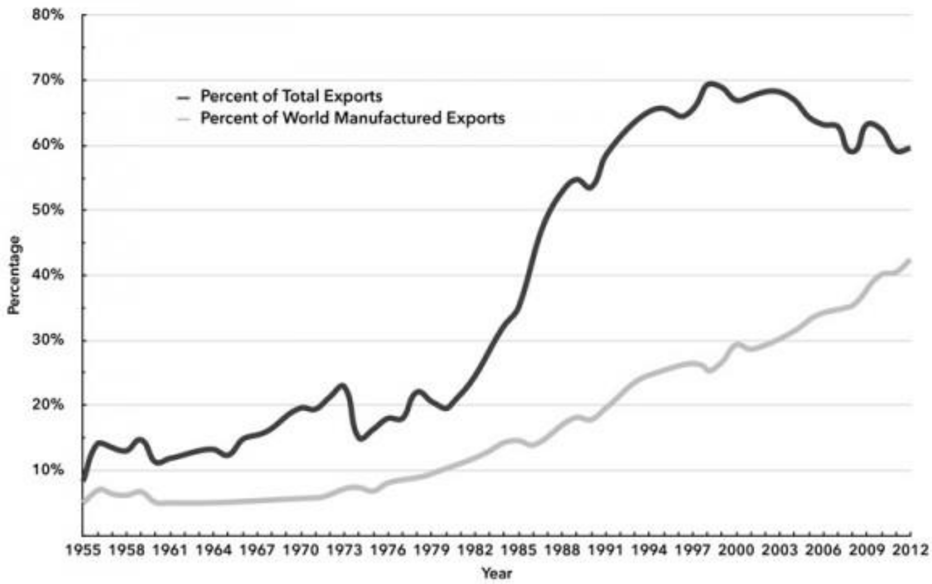

Figure 2. Share of Developing Countries in World Exports of Manufactured Goods
Sources: *UNCTAD Statistical Handbook*, http://unctadstat.unctad.org.

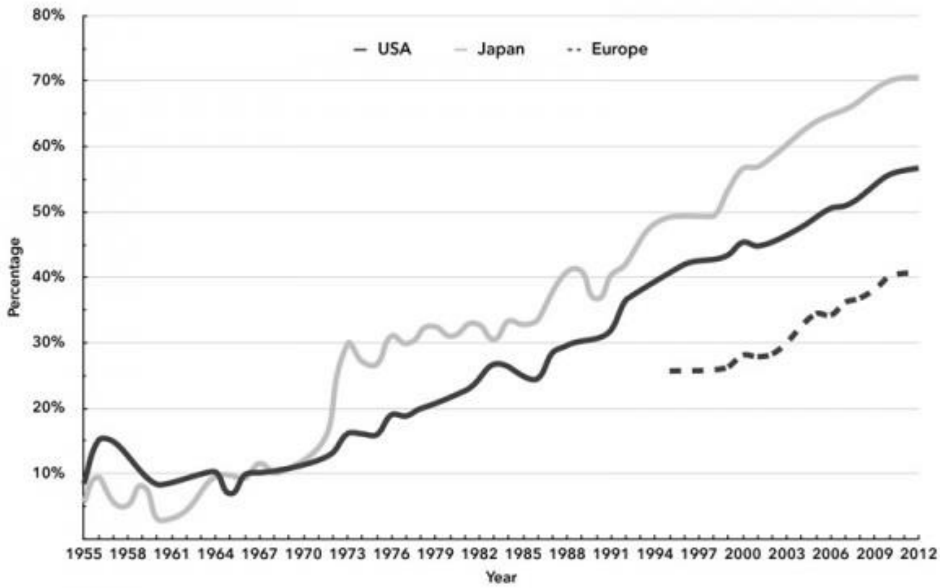

Figure 3. *Share of Developing countries in Manufactured Goods Imports of Developed Nations*
Sources. UNCTAD Statistical Handbook, http://unctadstat.unctad.org.

Figures 2 and 3 show that the share of developing countries in the world's export of manufacturing has steadily increased since 1955 and also that these countries have been importing high tech and manufactured goods from the developed countries. However, East Asian countries have done considerably better than other developing countries. In this region, a mixture of both state and market were used to promote economic development and industrialisation. A recent example of Chinese government intervention to facilitate and promote businesses and exports could not be ignored. Public investment in infrastructures and education sectors played a key role in attracting inflows of foreign capital. Moreover, China controlled inflows of foreign capital and the government managed large parts of trade and owned heavy manufacturing industries. On the other hand, most sub-Saharan African countries are largely dependent on primary commodities exports. For instance, for the 18 African countries, exports of primary commodities consisted of 70% of their export earnings in 2000 (Stiglitz, 2005).

4. State and Trade Policies

Past experience has showed that the state played an important role in economic development and developmental state policies were necessary in order to successfully accomplish industrialisation in developing countries.

Early development of industries benefitted from proactive state measures and protective support. Ha-Joon Chang identifies at least four distinct phases of British trade policies, where the state played a crucial role. Henry VII and his successors started laying clear policy measures in the 16th century in support of building and protecting the development of domestic industries, the modern version of which is infant industries promotion. Later on in 1721, the British Prime Minister further undertook protectionist and regulatory measures to promote industries, especially the woollen industry. Such policies were promoted throughout the industrial revolution period in the late 18th and early 19th century until Britain attained a technological lead and industrial supremacy; and finally, the Corn Laws were repealed and free trade was promoted. It was intended to halt the move to industrialisation of other European countries (Chang, 2008; Brown, 1993).

As Engels argued, Britain, in order to achieve industrial supremacy, adopted a policy combination of mercantilism and imperialism. He wrote comments for a preface to Marx's speech on free trade. "It was under the fostering wing of protection that the system of modern industry… was hatched and developed in England during the last third of the 18th century. And, as if tariff protection was not sufficient, the wars against French Revolution helped to secure England the monopoly of the new industrial methods. For more than 20 years, English men of war [fighting ships] cut off the industrial rivals of England from their respective colonial markets, while they forcibly opened their markets for English commerce… the progressive subjugation of India turned the people of all these immense territories into customers of English goods" (Engels, 1990:522).

Moreover, Britain and other European countries in the past exported their large number of unemployed and social discontent section of the population overseas. This was made possible by the invasion and seizure of vast territories from indigenous inhabitants in the Americas, South Africa and Australia. Certainly, such a massive land grabs and looting of resources and outmigration did provide huge assistance in facilitating the process of industrialisation in European countries, especially Britain. For example, between 1812 and 1914 about 20 million people migrated from Britain and nearly two-thirds went outside the Empire. Furthermore, from 1870 to 1914, migration particularly to new territories was enormous and more than 50 million people migrated from Europe to Canada, the US, South America, South Africa, Australia and New Zealand. This huge emigration from Europe amounted to one-eighth of the European population during that period.

Moreover, outmigration countries such as Britain, Italy, Portugal and Spain amounted to between 20 and 40% of their total population (Stalker, 1994). Without taking all aspects into account, especially the occupation of new territories and the outmigration from Europe, would mean not looking at the entire matter in totality.

In contrast to West European countries, Japan in the East Asian colonies invested heavily in infrastructure, education and modern technologies, which played a crucial role in raising productivity and economic diversification. This reversal in colonial policies in the past had quite different outcomes. For example, during the colonial period Taiwan's agriculture became highly efficient and productive. Japan was also in a hurry to set up heavy industries in its colonies. It was envisaged that in the case of war such policies would prove to be beneficial and strategically important. Since importing labour was almost a closed option, this meant transferring Japanese industries to the colonies such as Taiwan and Korea with the availability of cheap raw materials and labour costs (Amsden, 2005).

Globalisation in the 19th century coincided with the rapid changes in technology, particularly in transportation costs and time, both of which were reduced drastically. This period also witnessed the invention of steamships, the telegraph and railways and all these led to further reduction in the costs of freight by two-thirds and, furthermore, the opening up of the Suez canal in 1869 halved the distance from Bombay to London. These technological developments had even more dramatic impact on reducing geographical barriers in 1914; the long-term FDI in the world economy was distributed in an uneven manner, e.g. more than half of FDI (i.e. 55%) went to developed countries, i.e. 30% to Europe and 25% toUS, while 45% went to poor countries and to European colonies, i.e. 20% to Latin America and 20% to Asia and Africa. In 1913, the primary sector accounted for 55% of long-term total global foreign investment, while investment in transport etc. accounted for another 30% and the manufacturing sector only 10%, which was mainly concentrated in Europe and the US (Bagchi, 2010).

5. Comparative Advantage

The theory of comparative advantage is provided as support for worldwide trade liberalisation. The theory claims that free trade is beneficial for all countries. It is further said that free trade will automatically lead to the realisation of various other benefits. For example, once the poor countries open up their markets and join free trade, living conditions will improve. The WTO argues that economic welfare can be maximised through free trade. However, comparative theory rests on assumptions that there are no trade imbalances between countries (WTO, 2013; Bhagwati, & Krueger, 2001).

The theoretical support for free trade rests on David Ricardo's theory of comparative advantage. In his 19th century proposition, he argued England and Portugal could engage in mutually beneficial exchange of cloth and wine, regardless of respective productivities and prices. However, in the 20th century Heckscher-Ohlin-Samuelson (H-O-S), while primarily basing his view on Ricardo's theory, said that countries must export products based on inputs they have in abundance and import products based on inputs that are scarce. However, the trade pattern does not confirm such a claim, as most trade occurs among countries that possess similar endowments. To explain this, Paul Krugman (1987) put forward a new trade theory that justified policy intervention such as tariffs and subsidies. In fact, the difference between the economies of developed and developing countries does have an impact on trade.

For instance, suppose the developing countries specialise in sectors for which they have abundant supply, as recommended by the H-O-S module. This would mean developing countries would focus on primary products that have little added value. Moreover, prices of primary products tend to decrease compared to manufactured products; and manufacturing plays a very important role not only in expanding areas for employment, and also in raising overall productivity in the economy, including the agriculture sector. Earlier, the World Bank study predicted welfare gains in 2015 of US$ 96 billion (one-fifth of 1% of the world's GDP). Developed countries stand to gain US$ 80 billion (82%), compared with $16 billion (18%) for the developing countries. However, a major proportion of the developing countries' share would go to countries such as China, India and Brazil, $1 billion each, whereas African countries would be net losers of $3 billion (Anderson & Martin, 2005). While Polaski (2006) found that global gains from further trade liberalisation would be 0.2% of the world's GDP, even if the Western market were more opened, most gains would go to China, India and Brazil.

Paul Krugman argues that trade patterns could be explained by increasing the returns to scale and imperfect competition. On trade theories he complains that "Since mainstream trade theory derived its power and unity from being stated in formal general equilibrium terms, alternative views were relegated to the footnotes" (Krugman, 1987:133).Trade theory places much emphasis on relative prices and costs in explaining international trade. However, recent experiences of the developing countries show that this is not the case. In fact, a number of studies have shown that price levels have accounted for very little in explaining international trade. And as such Ricardo's comparative advantage theory seems to be inadequate due to a number of assumptions such as perfect competition, full employment, homogeneous goods and empirical irrelevance (Barker, 1977).

According to neo-classical theory, productivity growth in one country leads to an appreciation of its currency. trade leads to, "the happy result that all countries will be able successfully to participate in international trade in the sense that they will benefit from such trade and be able to generate export revenues equal to the value of imports" (Milberg, 2004: 56-57).The country's higher productivity is balanced by disadvantageous movements of the exchange rate. Further, its factor price equalisation model even postulates that the difference in real wages would be reduced and ultimately eliminated. The neo-classical theorists argue that countries would conform to the wage level of rich countries and free trade policies are seen as a great equaliser among countries. It is argued that free trade has alone, "the potential for development and convergence between rich and poor countries" (Kiely, 2007: 15). Contrary to such claims, Kaldor suggests such effect "is nothing else than the inhibiting effect of superior competitive power of industrially more efficient and dynamic countries, as compared to others" (Kaldor, 1981: 597). According to him, some countries benefit more from free trade while others benefit less or might even suffer losses depending on their level of development. Kaldor observes that, "under more realistic assumptions unrestricted trade is likely to lead to a loss of welfare to particular regions or countries" (Kaldor, 1981: 593).

Empirical studies also do not support the expected associations between trade liberalisation and increase in income levels. Rodrik (2001) finds, "that there is no convincing evidence that trade liberalisation is predictably associated with subsequent economic growth" (Rodrik, 2001: 11). It is also true that countries that export mainly agricultural and primary commodities have witnessed declining terms of trade and have also seen an uninterrupted sharp rise in their trade deficits. The imbalances are not only far from balanced out as the theory suggested but rather have led to further accumulation of debts and debt crises.

The neo-classical assumptions could be rejected on theoretical, logical and empirical grounds. Therefore, comparative trade theory cannot determine international trade patterns (Maneschi, 1992). The issue of a possible causal link between trade liberalisation and reduction in income inequality is unclear. Neo-classical theorists predict that the growth of world trade would lead to a reduction in income disparities across countries. However, these claims are based on a number of assumptions whose validity is being questioned by various empirical researches and are also far from the past experiences of the developed countries.

It is widely recognised, for example, the gap in average per capita between the richest and the poorest countries has increased substantially in recent decades (Ghose, 2004). Since the adoption of neoliberal economic policies in the 1980s and with the abandonment of Keynesianism, meant to limit government fiscal policy measures to stimulate the economy, there has been a rapid increase in income and wealth inequalities in most developing countries (Cornia, 1999).

The neo-classical theory assumes the persistence of full employment and therefore, a rise in trade that can affect growth only through factor allocation and increasing the levels of competition and technology in the economy. As a result, not only will economic growth increase but also efficiency and productivity as well. It is further assumed that if the developing countries relax on foreign capital inflow regulation then inflows of capital will increase into the developing countries (Krueger, 1996).

At present, trade policies suggested by neo-classical economists for developing countries have exclusively focused on the Pareto-Optimality conditions in multiple markets which are achievable under free trade. It is further said that any deviations from competitive equilibrium are treated as ‘distortions’ in terms of the favoured Pareto-Optimal model (Bhagwati & Krueger, 2001). However, little attention is paid to deteriorating living conditions and incomes and overall aggregate demands in the country (Sen, 2005).Theoretically, untested free trade theory is still referred and propagated by international institutions and Western countries, pushing for reduction in tariffs and opening of the markets in developing countries (Sen, 2005).

The Heckscher-Ohlin-Samuelson model was validated with experiences in Europe and North America, where in fact the evidence suggests a commodity-price convergence took place. The price gap between exporting and importing countries which was substantial in 1870 diminished rapidly up to 1914. This convergence in commodity prices extended to North America and Europe and improved the terms of trade for all the major European countries and North America.

It seems useful to briefly discuss development of modern businesses in India, especially in the 20th century. Indian businesses are embodiments of pre-industrial forms of capital accumulation through money lending and trading. During the two World Wars and the Great Depression they had more freedom in the sense of setting up industries and had capital accumulation including black marketing and swindling in government contracts. British interests were more diverted towards railways, engineering, jute and tea plantations (Tyabji, 2015). Levkovsky (1966) also argues that development of businesses in India under British rule was very different from that in West European countries. Unlike in Western Europe, in India, the emergence of industries did not follow a transition from independent artisans to manually operated manufacturers to modern power-driven factories. In India, manufacturers were closely linked with the merchants’ and usurers’ capital. For a relatively long period, Levkovsky finds, manufacturers continued to engage in money lending and trading along with industrial operations (Levkovsky, 1966; Siddiqui, 2015b).

In fact, the merchant and usury capital and industrial capital are distinct forms of capital that employ different methods of accumulation. Merchant capital generates profits through buying and selling commodities, usury capital makes profits through the interest on loans advanced by money lenders, while industrial capital on the other hand makes profits by buying raw materials and employing workers and producing manufactured products and innovations of new products. As Dobb examined, in Western European countries, with the expansion of industries the importance of industrial capital increased over time, while the merchant capital operation declined relatively. The usury role also declined over time with the decline of peasant-based agriculture. As Tyabji (2015) observes, "the existence of a class of businessmen does not automatically mean the existence of a group of industrially oriented entrepreneurs, because the development of industries is not necessarily the only money-making activity available to these businessmen… In the Indian case, colonialism and 'arrested development' formed the context within which emerged the group of businessmen responsible for managing industrial ventures after independence. They were part of an imperfectly formed group of industrialists possessing characteristics that reflected their background of engagement in non-industrial activities; activities which they continued to be involved, even as they acquired control over industrial companies" (Tyabji, 2015:102).

Global economic integration without taking into consideration the different levels of developing and the specific economic situation of the country would be a futile and meaningless attempt at such integration. Sachs & Warner (1995) argue that the globalisation process and global market integration, as measured by the international flow of goods and services, will promote growth and convergence in income levels between developed and developing countries. According to them, since the increased integration began in the 1980s, supported by the IMF and WTO, Economic integration means "not only increased market based trade and financial flows, but also institutional harmonisation with regards to trade policy, legal codes, tax systems, ownership patterns and other regulatory arrangements" (Sachs & Warner, 1995: 2).

Ha-Joon Chang (2008) examined the earlier industrial and trade policies of the developed countries such as Britain, Germany, France, the US and Japan and found that when these countries were in the process of building their industries they used protectionist policy measures to develop their 'infant industries'. He says the current international rules imposed via the IMF/World Bank and WTO would not facilitate the development of an industrial sector in these countries. Chang notes, "Neo-liberal globalisation has failed to deliver on all fronts of economic life – growth, equality and stability. Despite this we are constantly told how neo-liberal globalisation has brought unprecedented benefits" (Chang, 2008: 28).

It is difficult to explain why, despite higher levels of economic integration between countries within the last three decades, the outcomes have been "negative externalities" such as a rise in income inequality and persistence of poverty in sub-Saharan Africa, Latin America and South Asia (Siddiqui, 1998).

Present globalisation involves further integration of countries into the globalised markets, which is supported by fast communication channels and high technology. Globalisation could be identified according to the following characteristics: Capital has more freedom both in terms of investment opportunities and selling of products in global markets; increased integration of national markets with the global market; and dominance of finance (Perrotta & Sunna, 2013). However, all these are undermining and making it difficult to make and implement sovereign economic policies suitable for local conditions.

The neo-classical theory uncritically accepts the role of the markets and argues that if markets are given freedom, then economic growth could be attained with efficiency and ultimately will be able to achieve higher output, consumption and distribution, which is defined as Pareto Optimum (Krueger, 1996). This theory under the pretext of harmony ignores what Karl Polanyi's book *Great Transformation* terms "double movement" during the rise of capitalism, i.e.

expansion of market relations, with legislation made to protect society from its consequences, which is far from self-regulating. In effect, expansion of markets proceeded with dispossessions and displacements of people from their inhabitants.

The current wave of globalisation began in the 1980s in spheres of production and finance and is a bit different from the previous one. During this wave of globalisation, we find that foreign capital and multinational corporations and international portfolios flow are far more important players than in the earlier period. This has led to the acceleration of capital investment in the manufacturing sectors in the former colonies, which was in the earlier globalisation phase largely limited to mining and railways. De-industrialisation via trade and transfer of surplus from colonies remains a very crucial element in the analysis of the past economic history of the developing countries. Foreign investment is tied to intra-firm trade and has been increasing at a faster rate than world output, especially since the 1980s. For instance, FDI inward stock rose from 7% of world GDP in 1980 to 30% in 2010. This seems to be due to global companies expecting to receive very high profits and establishing strategic control over their supply lines. As a result, there has been a massive increase in the export oriented industries, especially in the East Asian region including China. Moreover, in 2010, for the first time more than 50% of FDI went to developing countries and foreign capital is now the biggest source of external funding for these countries (Perrotta & Sunna, 2013; Siddiqui, 2009).

During the past quarter century we have witnessed the signing of a number of treaties and agreements, whereby international capital imposes further rules and regulations on governments, which limits the autonomy of the sovereign countries and in turn forces them to ask for assistance from international capital and governments of the developed countries; this will ultimately restrict their adoption of independent policies and undermine any possibilities of the poor countries building autonomous development.

Unlike GATT, the WTO includes mechanisms for dispute settlement and most likely would favour the interests of big corporations that can afford high legal costs and lobby to pursue their own interests. Moreover, the TRIPs agreement provides multinational corporations greater powers than currently held. Furthermore, agricultural trade liberalisation is undermining food security in most developing countries and many of them will become food importers. At the same time trade liberalisation in the agriculture sector would benefit agricultural exporting developed countries that have experience, technology and capital to take advantage of the new situation (Reinert, 2007).

6. Conclusion

The study finds that globalisation and policies of ‘free trade’in the past decades did not lead to rapid growth and economic convergence in most developing countries. The theory of comparative advantage is presented in support for worldwide trade liberalisation. The theory claims that free trade is beneficial for all countries. It further assumes that free trade will automatically lead to the realisation of various other benefits. The contribution of this paper is that a number of empirical evidence from the majority of developing countries proves such claims are a fallacy.

Trade and services liberalisation also includes TRIPS, which covers protection of trademarks, patents, industrial design and copyrights. At present, as far as the question of knowledge and technology is concerned, the developed countries are net producers and the developing countries are net consumers. TRIPS will increase the price of patentable knowledge to consumers and as a consequence, the flow of rents from the developing countries to developed countries will increase. It appears that new regulations such as GATS and TRIMS are designed to benefit the large companies of the developed countries to make it easier for them to enter and exit markets with fewer restrictions and obligations and to protect their appropriation of technological ownership rents.

The developing countries need to adopt trade and economic policies that are more suitable to their stages of development, which they face, will enable them to achieve higher rates of growth. The economic development should be put as centre stage in WTO negotiations which may require a drastic change in the culture and conduct of such negotiations. At present, it appears to be steeped in narrow mercantilism rather than any long-term vision of trading system that benefits most of the developing countries.

The study concludes that state intervention in the national economy has proved to be a crucial policy element in achieving successful economic development. The recent experiences, not only in East Asian countries, but also in developed countries since the Second World War, show the role of the state to be important for achieving economic development. There seems to be a need, both on theoretical and empirical grounds, for state management to make the market friendlier towards national economic developmental needs. Therefore, developing countries need to change their course of economic strategy away from global financial instability and dependence on foreign markets to, instead, relying on domestic investment, wage and employment-led growth.

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